RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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THE PICTURE: Regardless of what you or I think of the Clinton program for the new prosperous America, the markets are clearly going to have the last word. Why so? Because markets equal money-power, and in this world, money talks, it talks louder than the President or the 535 members of Congress.

OK, then what are we looking at? Here's my opinion: we're looking at a stock market that is highly speculative and rather frenzied. We're looking at a dollar that has topped out. We're looking at gold which has probably bottomed. And I think we're heading into a year which will be chock full of surprises, changes, and rising volatility. Volatility? Yes, remember, 1992 was a year which produced a total Dow range, high to low, of only 8.8%. I don't expect 1993 to be a repeat of that.

This is a time when a Dow Theory approach to the market should prove instructive. So here goes: A few weeks ago we saw both D-J Averages (Industrials and Transports) break out to new highs within a day of each other (see page 1 chart). The rise, I feel, was suspect in that the Averages barely extended their advance following the breakout. On February 16, two weeks later, the market plunged, taking both Averages well below their breakout points.

I take the decline off the highs seriously. My reasons are as follows: (a) At the highs the market was dangerously overvalued (it still is), with investors paying $36 for each one-dollar of S&P dividends; (b) The public was (and still is) up to its ears in stocks, mainly through mutual funds; (c) Prevailing sentiment can only be described as one of complacency. The consensus view is, "Buy every decline, because the market can be counted on to go to new highs."

Here are some significant levels in the Averages which will serve to tells us whether the market is in trouble or not. The points I am watching are the January lows. These are **3241.95** for the D-J Industrials, and **1466.92** for the Transports. As long as one or both averages hold above those levels, the "coast is clear."

Something to watch -- although the Dow has rallied over the past few weeks, the Transports have barely budged (actually, they have declined, even on days when the Dow rallied). This kind of divergence is a negative. If Transports continue to decline, there'll be trouble.

A big plus -- on February 22 the D-J Utilities surged over 6 points, taking the Average to a new all-time high. This fits in with the strength in bonds. Normally, a rising Utility Average should be taken bullishly, particularly when dove-tailing with a rising bond market.

A further plus: It's in the page 2 chart of my **Primary Trend Index.** In a word, the PTI is still bullish.

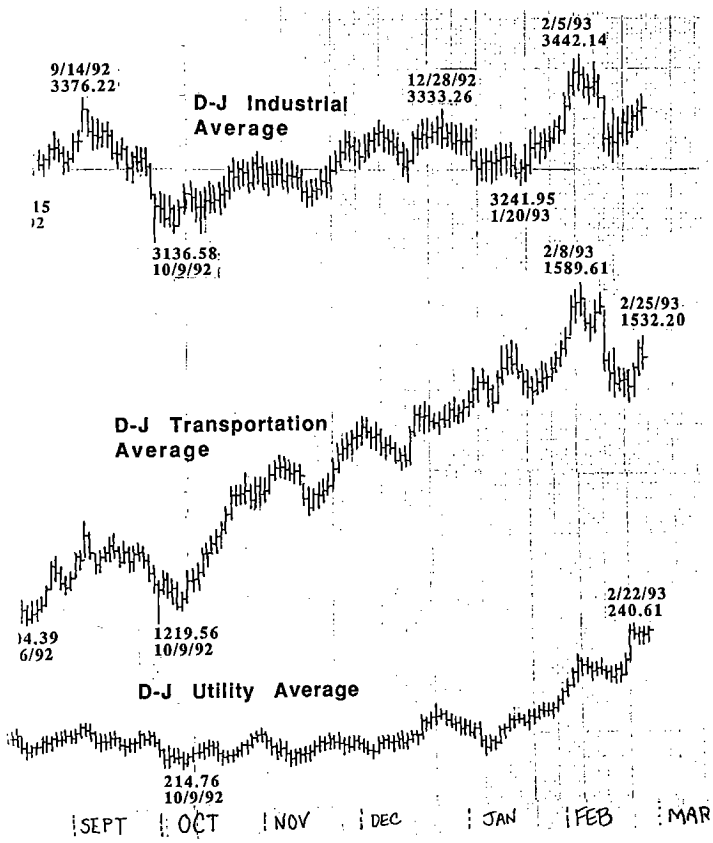
COMMENTS: Bonds -- The bond rally has been powerful and persistent. Many observers are saying that the bonds are advancing because the Clinton program will reduce the deficit, and therefore rates will decline. My opinion: the bonds are rallying because the bond market (which is far more sophisticated than the stock market) believes that the Clinton program will be deflationary and bad for business. If the nation lapses into recession again, the Fed will move to press rates even lower, thus putting upside pressure on bonds. Furthermore, there is an almost frantic search by the public for yields. Bond mutual funds, for the first time ever, are outselling equity funds.

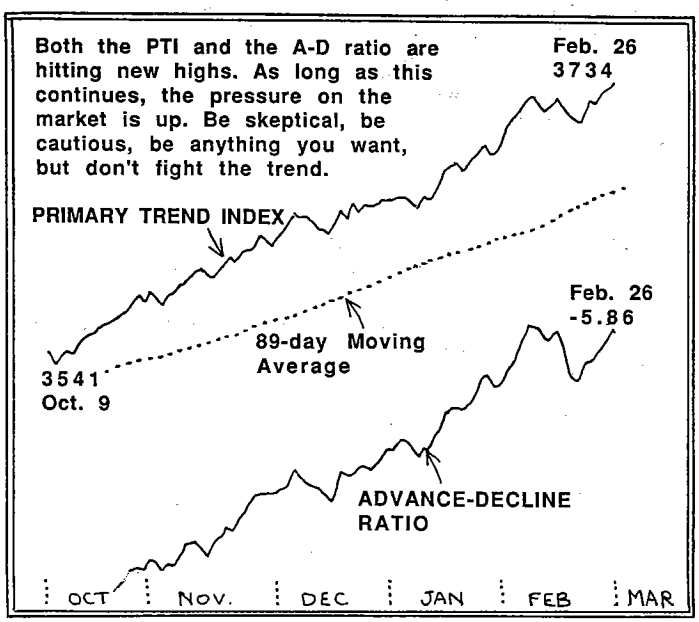
Feb. 19 DJIA 3322.18; PTI 3716; A-D Ratio -6.45
Feb. 26 DJIA 3370.81; PTI 3734; A-D Ratio -5.86
Dow Yield: 3.00%; Dow Price/Earnings: 36.8
Dow 200-day MA: 3300; Dow 30-day MA: 3317
Dow Times Book Value: 2.59; PTI 89-day MA: 3660
Percentage of Undervalued Blue-chips: 7%
Low Risk Buy Index: +84

Currencies -- The last seven months have seen the highest volatility in currency history. We've seen instances when the pound has risen three cents in a day. We've seen the Swissie drop 500 points in a matter of a week. It's been a wild period for Forex traders. In a business (currency trading) where transactions run to almost a trillion dollars a day, we've seen traders make and lose tens of millions of dollars overnight.

Right now I believe we've seen the D-mark and the Swiss franc put in definite lows (maybe the same for the British pound, although I'm less sure here). Meanwhile, the yen has risen to record levels against the dollar. This is not bullish for Japan (it makes their exports more expensive), but the US administration hopes the new "cheaper dollar" will help US exports. Of course, a cheap dollar is basically inflationary, since it means that almost all imported goods cost more for Americans.

CLINTON = Taxes, taxes, taxes, taxes, taxes, taxes, and more taxes. Spending, spending, spending, spending, and more spending. Cuts in government programs, cuts in spending? Very few. So far, Clinton has backed down or reversed almost everything he promised during his pre-election campaign. Will





Congress swallow the Clinton tax and spend mix (excuse me, it's the "contribute" and "invest" mix)? Will the stock market swallow it? Will the dollar swallow it? Will the American people go for it? Will there be any "middle class" left after Clinton? We'll surely find out, won't we?

Clinton's a salesman and he's shrewd. He's going over the heads of the politicians and directly to the people with his populist, big government programs (on the basis that the people don't really understand the programs or the figures anyway) and the politicians are mainly worried about their jobs and will go with what they think the voters want.

There's no sense in my presenting a detailed description of the Clinton blueprint for a new prosperous America. Every magazine and newspaper in the country is analyzing it. I'll just mention a few facts and offer a few opinions.

According to Clinton, anyone with an income of over $100,000 is "rich." The latest (1990) figures from the IRS, show that these same so-called "rich" constituted 2.8% of the entire income-tax paying population. And surprise, these same 2.8% paid 36.2% of ALL income taxes. So I'd say that the "rich" were already paying their fair share, right?

These same over-$100,000 "rich" tend to be the most productive people in the nation. Socking them with more taxes isn't going to create prosperity. It's going to cost the nation -- in jobs, in productivity, in investing, in savings. As to whether Clinton's new plan will actually create jobs, well, it may -- but the jobs will all be government jobs.

My Opinions: (1) Clinton is an advocate of BIG government, BIG programs, BIG spending, BIG taxes. (2) I don't know how much of the Clinton program will finally be passed by Congress, but I would say that if the program is passed, it will prove to be a disaster. (3) Clinton, in his speeches, is using the politics of division -- the "rich" who made all that money during the evil days of the 1970s and '80s, vs. the "middle class" who were passed over during the same period. (4) Clinton is a master of euphemisms, and I'm chronically suspicious of anyone who manipulates the English language for his own purposes. I like straight English. In Clintonese, "Contributions" = taxes, "Investment" = spending, "Middle class" = any large group with a vote, "Sacrifice" = you're going to get hurt (you, not the government).

I also like straight statistics. Clinton classifies the following as "spending cuts": $21 billion raised over the next four years by taxing Social Security benefits, $11 billion by shifting long-term debt to short-term debt, $24 billion in reduced debt-service costs, and over $6 billion in new "user fees". As the *WSJ* states it (Feb. 22): "Take away these, and the net spending cuts virtually disappear."

Clinton thinks the so-called "rich" are just going to cave in and pay the big new taxes. He's wrong. The "rich" aren't stupid; they'll find ways around the higher taxes. Result: tax collections ("contributions") will be far less than Clintonites are expecting. Which means BIGGER deficits.

Higher taxes are bad for business and always result in less revenue for the government. There's only one road to prosperity, and I'm talking about productivity in the private sector, savings, investment in the means of production, plus conservative finance. Singapore does it, Taiwan does it, China (you better believe it) is doing it. The US is not doing it. And unfortunately, Clinton doesn't even understand it.

Reagan on Clintonomics: "During the campaign, Clinton said he would tax only the very rich. Last week, he defined this category as those making $200,000 a year. On Monday, the definition came down to $100,000, and now the 'very rich' seems to be anyone making $30,000 a year."

Paul Gigot (from the *WSJ*, Feb. 19): "Any serious idea to cut spending was also thrown over the side to make sure the program would sell to liberal Democrats in Congress. My favorite budget analysts, John Cogan and Tim Muris, calculate for the American Enterprise Institute that, for fiscal year 1994, the Clinton plan proposes only $3.6 billion in net spending cuts but $36 billion in tax increases -- a ten to one ratio. So much for 'reinventing' the state."

From the *WSJ* (Feb. 19): "The actual tax rate could be above 43% for many upper-income tax payers, especially those with large numbers of dependents, according to calculations by Stanley Breitbard, national director, Personal Financial Services, at Price Waterhouse." Russell comment: add another 10% for many state taxes, and an upper income citizen may keep less than 50 cents of every dollar he makes.

From A.M. Rosenthal, Feb. 19 *NY Times*: "And he (Clinton) might have the good grace to acknowledge that $100,000 is not all that guilt-laden an income if you don't have free government housing, limousines, weekend retreats, jogging tracks, and household help, if you know what I mean?"

Thomas Capps, CEO of Dominion Resources, Inc: "I wish Mr. Clinton well, but this economic program is a disaster. For us, on the back of the envelope, we anticipate the tax will cost us more than $50 million a year. We anticipate that we will pass that on to customers, but we will have to make that part of a rate increase filing."

From Victor Canto, of A. B. Laffer, V. A. Canto & Associates: "Our view of investments starts with the idea that what matters is how much you get to keep . . . In general, the impact of higher taxes will be negative for all investments."

From *Investor's Business Daily,* Feb. 19: "Outside of defense, don't count on the federal government looking any leaner in 1996, despite what appears to be a crash diet proscribed by President Clinton . . . Costs for the new programs outlined again by Clinton for Congress would dwarf the projected $8 billion savings from his federal work force consolidation -- the only savings Clinton can guarantee."

From Paul Craig Roberts, professor, Center for Strategic and International Studies, Wash. DC: "Restoring the primacy of the government is what Clinton is all about, and punitive taxes on the successful are a necessary psychological component. People who dare to gain independence from government are going to be made to pay. As costs go up, fewer will achieve it . . . Government is all that liberals have to believe in. No amount of public-sector failure, no matter how obvious, will ever cause liberals to subordinate the growth of government to the growth of the economy . . . In 1990

government claimed 36.8% of GNP, leaving the private sector with only 63.2%."

Well, the above are some choice quotes, so you know what I think of the Clinton program. Frankly, I thought Clinton was going to honor his pre-election promises and concentrate on really lowering the deficit. Shows how naive I am (in fact, I'd say I feel double-crossed, even though I never voted for the prez). In all, Clinton is going to waste a great opportunity to seriously shrink government, lower taxes (I said lower), and actually cut the deficit. (Note: have you noticed the fiercely anti-Clinton editorials in the *WSJ*? But unfortunately, most of the voting public doesn't read the *Journal*.)

CONTRARY OPINION: Oops, four items and all great candidates for contrary opinion. (1) In the Feb. 16 issue of *Barron's* the lead article ("For Unloved Bears, No Happy Valentine") makes fun of three stock market bears -- Bob Prechter, Peter Eliades and P. Q. Wall. (2) A week before the *WSJ* published a piece saying that times have changed and maybe minuscule dividend yields aren't bearish in today's world. (3) At the same time giant Fidelity shut down its Low-Priced Stock Fund to new buyers (the fund, at $2.3 billion, was pulling in too much money and just getting too big). (4) Finally, we had the February 13 article from the London *Economist* urging us to sell our gold (see gold section on page 6).

Bursting at The Seams

Reluctantly, mutual-fund managers shut the door on new money

EVERY WALL STREET EXECUTIVE DREAMS OF DROWNing in cash. For an increasing number of mutual-fund managers, the fantasy has become reality—but an unwanted one. Inundated with $300 billion worth of new investments since 1990

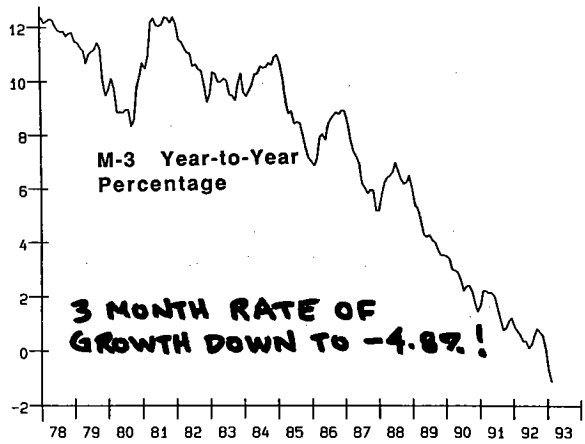
INVESTMENT POSITION: The bull's in the box, and the PTI continues in its bullish mode. So what's wrong with loading up on stocks? The only thing wrong is history. History tells us that when it costs $36 to buy $1 of S&P dividends, then trouble's waiting in the wings. Of course, history doesn't have to repeat, but I never like to bet against it, and I do like to sleep nights.

Stock action is now highly erratic, and it's becoming increasingly difficult to show profits. The biotechs suddenly cave in, the pharmaceuticals collapse, then it's the retail store stocks that take a dive, and even mighty Microsoft (13 insiders recently sold MSFT) is now well below its record high. It's a gambler's market here, and if I was a gambler I'd take bets that stocks will be a lot lower a year from now.

The kicker behind stocks, I feel, has been the persistent decline in interest rates, but the bonds are now pushing their upper band limits (which means they're drastically overbought), and I wouldn't depend on bonds to bull this stock market forever.

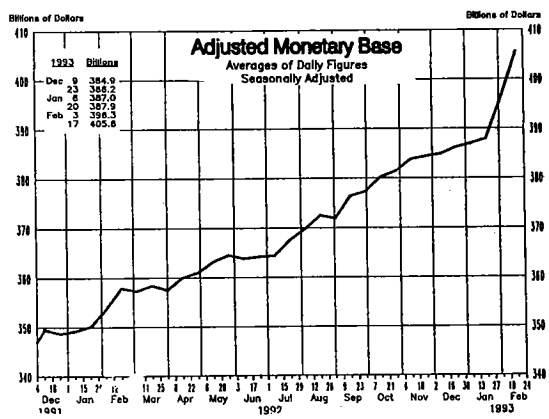
OK, if I had to buy here, I'd favor the utilities, many of which still offer decent yields, stocks such as Amer. Elect. Power, Florida Progress, Niagara Mohawk, Central & Southwest, Entergy, plus some of the telephone stocks such as Ameritech, Bell-Atlantic, even GTE.

MYSTERIES OF THE MONEY SUPPLY: One of the mysteries of today's economy is the collapse in the broad M-3 money supply. Here's Ed Hyman's latest chart (courtesy of *ISI*), and as you can see, year-to-year M-3 has now gone negative. Normally, that would also be negative for business (normally, it implies that nobody's borrowing).



But Charles Clough, Merrill Lynch's Chief Investment Strategist, disagrees (and his view has merit). Says Clough, "The M-3 money supply recently fell 1% year-to-year for the first time in at least 30 years. The numbers are important: we think they speak volumes about the economic recovery. The economy is expanding without the use of credit. The types of credit strains that end bull markets in stocks are not yet visible. M-3 reflects bank deposits, and its shrinkage is an indication of the banking system's declining need for them. The economy is throwing off a lot of cash, and no one knows what to do with it . . . corporations are generating enough cash to internally finance inventories and capital spending."

Russell comment: I tend to agree. The Feb. 22 *Christian Science Monitor* writes, "The Clinton administration wants monetary action, not just words, from the Fed." Is the *Monitor* kidding? The Fed already has the throttle wide open. This chart from the St. Louis Fed shows the Adjusted Monetary Base literally exploding. Since mid-September the AMB has expanded at the outrageous rate of 17.8%. Since December 23 it has expanded at a (would you believe) 29% rate.



If you wonder why the gold stocks are moving up (even while the gold metal remains relatively dormant), this is probably the reason. The sky-rocketing Monetary Base bespeaks of inflation ahead, and the gold stocks are getting ready.

NOTES & QUOTES: Question: what the devil was Fed Chairman Alan Greenspan doing sitting next to Hillary at the State of the Union speech? In fact, what the devil was he doing there at all? No other Fed Chairman was ever at this meeting. The Fed is supposed to be absolutely independent. And already wimp Greenspan has endorsed the Clinton plan, calling it "serious" and "credible." Outrageous. The clear implication is that the Fed is in partnership with the Administration, instead of being independent and impartial.

* *

Copper prices have been plunging. Copper is a good barometer of the economy. With copper down, bonds up, and taxes slated to rise, many observers are wondering whether the bond/copper/tax combination isn't telling us that the US is about to sink back into recession.

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Taxes were raised in 1982, 1984, 1987, and 1990. In each case the tax-boosters claimed that the deficit would decline. In each case, the deficit was higher the following year. And to R. Russell, it looks like "Deja vu all over again."

* *

What would the Clinton program cost you? Here's a run down according to the OMB: if you make $25,000, the additional tax would be $25; $40,000, you pay $200 more; $60,000, you pay $420 more; $80,000, add $560; $150,000, you pay an extra $1,050; $250,000, add $7,250. You make $500,000, you pay an additional $14,500. You can see why those making $40,000 or less won't object. Of course, there are more taxes coming, maybe an energy tax, a health tax, a national sales tax. Don't worry, Clinton is no slouch when it comes to dreaming up more taxes.

* *

One of the differences between this recession and previous recessions is that this time when workers or white collar people are laid off, the firings are not temporary. They are structural, and regardless of an upturn in the economy these jobs are permanently LOST. My view of the big picture: This is the new global economy, and the jobs will relentlessly go to the low-wage nations who can produce at a fraction of the costs of the high-wage nations.

* *

Shocker: I talked last night with my friend, Brian, who owns a local Chinese restaurant. He tells me that some of his friends are leaving the States to move back to China. I was amazed and asked why. He said, "They can make more money there. Business is easier, less red tape, less taxes, more opportunities. China is beginning to boom," he added, "Stores are full of high-priced goods. You can buy anything. Many people have big money. It's too hard to do business here, much too hard."

* *

Do you sincerely want to know what's going on? Me, I read 'til I drop, and here are a few of the dailies that I wouldn't be without: (1) *The New York Times*: hate their super-liberal politics, but love the paper. A must -- (800) 631-2580; (2) *International Herald Tribune*: great newspaper with marvelous coverage of US and world in not too many pages. Try it, you'll love it -- (800) 882-2884; (3) *Investor's Business Daily*: the nemesis of the *WSJ*, a terrific paper with surprisingly good page one articles plus reams of valuable charts and statistics -- (800) 831-2525; (4) London's *Financial Times*: For serious students of world finance, articles and items that appear nowhere else. Printed in pink -- (800) 628-8088; (5) The *WSJ* and *Barron's* are musts, but you probably already get these. I also would not be without the *Christian Science Monitor* with its fine, clear, incisive writing and world view. Magazines -- *Forbes*, *Business Week*, *Fortune*, *Financial World* and on and on. How about quotes and quick news? I use DTN, which costs little more than $35 a month. They provide you with a monitor and a cute little satellite dish (you pay to put up the dish) and presto, you're in business. I love it. You even get the currencies via Globex all night long (who needs sleep) -- (800) 995-4565.

* *

According to the Fed's "Flow of Funds" report the total amount of ALL debt in the US (federal debt, muni debt, corporate debt, mortgages, etc.) comes to $14.69 trillion. Of this $4.68 trillion is owed by the US government. This is $680 billion higher than the government says it is. How is that? It's because the $4.68 trillion included all of the US "off-budget" debt such as Social Security and other trust funds. (The foregoing is from *Gold Discipline Amendments*, PO Box 88, Broomfield, CO 80038.) Russell item: Let's say average interest rates in the US are 5%. Then it takes $740 billion a year to service the $14.68 trillion in total debt. That comes to $14 billion A WEEK that Americans have to pay to cover all their debts plus the government's debts. I mean, pretty soon you're talking about real money (or maybe national bankruptcy).

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According to the Feb. 8 (London) *Financial Times*, the People's University of China is dropping its courses in Marxism in favor of business studies. China's *Business Weekly* states that the new business subjects will replace 17 courses related to communist dogma. The communist courses died through lack of student interest. "China's Community Party School, the main center for training high-level party cadres, is also joining in by announcing that for the first time it will begin teaching China's leaders about stock market operations." Russell comment: I take this news very seriously. There's no doubt in my mind (I've been harping on this for months) that China is going to become a MAJOR producing power and player in the world market. I foresee China as a fierce competitor with a culture of hard work, business know-how and a penchant for savings. I might add that China is now a major buyer of gold, as is all the rest of Asia.

Think it over, a nation with a population of 1.1 billion (one out of every four human beings on earth is Chinese), a nation rapidly moving into the 20th century, a nation with low wages and unlimited manpower, a nation with a fierce work ethic, a nation with abundant manufacturing ability, a nation that saves and piles up gold, a nation known for the intelligence of its students, a nation eager to learn, and what do we have? You tell me.

I've been talking about China for a few years, but the *NY Times* has just run a series on China. They note that "Much of China's investment is aimed at the outside world, taking advantage of the $2 to $4 a-day wages for literate, healthy and eager young employees. The result is that the new factories are fueling a trade boom, with Chinese exports soaring to nearly four times the levels of a decade ago . . . The US government is increasingly worried about the trade deficit with China. The deficit reached an estimated $18.2 billion in 1992, making it second only to the US trade deficit with Japan."

Says *Business Week* (Feb. 22) "The breathtaking economic growth triggered by Deng Xiaoping's market reforms has transformed China into an emerging economic superpower that by the year 2020 could have the world's largest economy and that may surpass Japan as a market for US exports before that."

Perhaps the most telling statistic -- the savings rate in China is estimated to be 35% (that's thirty-five percent).

* *

I've been writing about America's sky-high stock market, but perhaps correlating with our stock market, gambling fever is sweeping across the US. And the big hotel chains love it. Hilton made 70% of its $220 million in operating income last year from its five hotel-casinos in Nevada. The big money is in the slots. A single slot machine at a hot casino can take in $40,000 a year after all winners are paid off. That's a heck of a lot more than a hotel can make on a room. Hilton was the first hotel chain to go into the casino business (they started in 1970). Hilton now uses half a million decks of playing cards a year.

Why the rush to gambling? (1) Relaxed morals in the US. (2) States running huge deficits and needing the tax money. (3) Aggressive companies looking for new ways to expand. (4) Profits -- a company can invest $12 million, borrow the rest, put up a $60 million gambling project and get back four times its investment in a year. Look for gambling to spread and look for the public to get fleeced bigger than ever. It's only a matter of time. Note: 13 river boats are now set up for gambling with 35 more coming on stream in the next three years.

* *

More on scams: Many analysts are now calling the Social Security system a scam, a generational scam. Why? Well, the system isn't funded. Today's retirees get their benefits directly from the paychecks of younger US workers. The SS trust fund now pays out 90% of the $300 billion it collects in annual tax receipts, and government indicates that by the year 2020 Social Security and Medicaid funds will be running at a deficit of half a trillion dollars. At that time there will be fewer workers and more people eligible for SS. So unless we see major changes there will be only three choices. (1) Cut SS benefits drastically. (2) Raise payroll taxes, probably by as much as 40%. (3) Default on SS payments to retirees.

* *

Inflation? The median price of a home sold in the fourth quarter of 1992 was 4.5% above the same period a year ago. You know what I think -- the government's inflation figures are bunk. Taxes alone are pushing up what we spend. If you know anyone whose expenses this year are below last year's, let me know. "The only

sure thing is death and taxes. "Let's revise that to"death and rising taxes."

* *

Economist Ed Hyman of ISI notes, "Surprisingly, M-2 declined in late January. During the first 4 weeks of this year, M-2 had declined by -$12 billion vs. +$16 billion during the same period last year." Ed adds, "Will the Clinton budget be net stimulative? It appears that the Clinton stimulative package ($31 billion) will be offset by spending cuts (defense) and tax hikes (36%). Overall, fiscal policy may not be stimulative. And state and local governments are still running big deficits and require tax hikes. In the past, higher taxes have led to recessions."

* *

Russell comment: My own opinion is that Clinton is doing it all wrong. I think his package is going to be poison for the consumer, for business and for the nation. I agree with my friend, Bert Dohmen of the *Wellington Letter*. Bert thinks the following is the road to prosperity: (1) Get rid of the capital gains tax, reduce it to zero. (2) Eliminate the corporate income tax. (3) Institute a national sales tax of just over 16%. In 1990 a 16.3% sales tax would have brought in $587 billion in tax revenue, the same as the 1990 income tax generated.

Again I'll say that our current tax system is the stupidest, most inefficient mess of make-work complications ever devised by the mind of man. I totally agree with Bert Dohmen's three items. But will this nation ever have the guts and common sense to get rid of the tax INDUSTRY? I doubt it, short of a total economic disaster.

* *

Percentagewise, what's the most profitable movie ever made? Blushingly, I'll tell you that it was almost surely "Deep Throat." Filmed over six days in Miami, it cost $25,000. *Entertainment Weekly* estimates that total sales of the film are roughly $600 million. Of course, the film was widely pirated.

* *

Bodies of Work: Nobody knows whether the video is an aerobic classic or a male-oggling classic, but Cindy Crawford's exercise tape has been on the top-ten rental list for 18 straight weeks and brought in over $18 million in sales.

* *

Whew! A few months ago a widely publicized Canadian study announced that lefties didn't live as long as righties. Being a lefty, I was crushed. I thought of writing a condolence letter to George Bush, who is my age and also a lefty, but I resisted (I didn't want to scare him any more than necessary). Ross Perot is also a lefty, but he'd call it a conspiracy of the righties. Then last week a joint study by Harvard and the National Institute on Aging came out with a new (and obviously superior) study saying that lefties live just as long as righties. I feel like I have a new lease on life. Hot dog!

* *

Wait, now they say that bald-headed men are prone to heart attacks. I looked in the mirror, and thought, "I'm about one-third bald." Gulp, I wonder if I'd live longer with a good toupee.

* *

College: Of our 41 presidents, over one-third never graduated from college. Nine presidents including Washington and ending with Truman never attended college and five presidents went to college but never graduated. Today I doubt whether a person without a college degree could make it to president. Bill Clinton went to Harvard, and he's got the top job. But Bill Gates, the richest living American dropped out of Harvard and still managed to make a living, so who's to know? That does it-- if I ever have another boy I think I'll name him Bill.

* *

I can't get away with a thing. A few Letters back I stated that Sake was the largest selling liquor in the world. A letter from a Hong Kong subscriber set me straight. Sake is the national drink of China and is rice wine. The Chinese also drink various versions of Mao Tai, which is a grain spirit with a much higher alcohol content than Sake. The Koreans and Japanese drink Shochu, which is a spirit made from grain. The largest selling alcoholic drink is not Sake, it is Shochu.

* *

The March *National Geographic* has a fine article on what's left of the Soviet empire. Here's a taste of Russia at an auction: "'Your proposals, gentlemen, Kirdsanov beckoned, and then he began to auction off Russia piece by piece. First, a big Kamaz truck, used, asking price 1.7 million rubles. Next, five Zhiguli automobiles, then a consignment of tires, each worth a factory worker's monthly salary. Across the room another auctioneer hawked barbed wire and 12 tons of aluminum ingots. The military even offered to sell a MiG-29, asking price: 23 million dollars. There were no takers, although 20 brokers nibbled. A few years ago the CIA would have paid five times that amount."

On a Russian interviewed on the coup. "I thought, what will be? We can't do anything. And cynical Vladimir added, 'Everything has collapsed -- so what?' The Russian patience, reinforced by decades of Soviet-engendered fear, is amazing."

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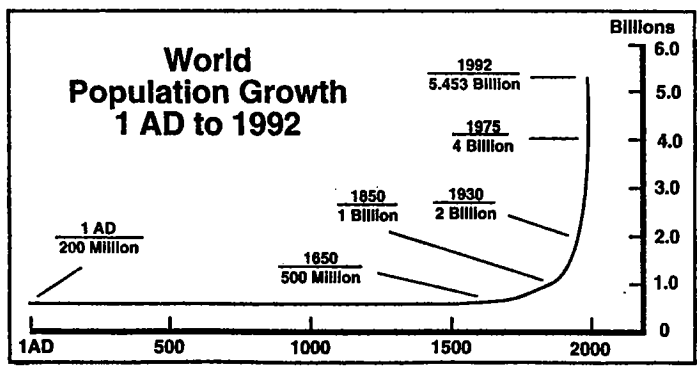
I spent a few hours walking around downtown San Diego. I don't get down there as often as I used to, and I was surprised by the many beautiful new buildings. I was also surprised by the number of vacancy and "For Rent" signs. It all reminded me of something my father told me back in the '40s (my father was in the real estate business all his life). He said, "Dick, the thing about the real estate business is that periodically it's hit by depression, and then a large number of builders go broke. But the buildings remain, even though the guys that built them go bankrupt. So in a way, a boom in building isn't that bad, because it does get things built. And the people who clean up after, the guys who buy all those beautiful building for fifty cents on the dollar, they do well."

My father was a student of business and the markets. He also told me, "Dick, it you want to make money, go where the money is -- in the money business. And if you ever start a business, make it a business that sells the world. Don't open up a business that's confined to one block or one neighborhood." Yes, I followed his advice.

All of which reminds me, a few years back I wrote a piece listing all the elements which make up "The perfect business." I've had many requests for a repeat of that essay, and I'll probably include it again in a forthcoming Letter.

* *

I've written about this before, but here's one of the things that worries me. The world population is exploding, and the tighter people are packed, the more wars, famines, epidemics, etc. When Jesus was on earth he only had to deal with 200 million people. What would he say to 5.5 billion?



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Saddest Act of the Week: Last week little Larry Villella of Fargo, ND, age 14, sent President Clinton a check for $1,000 "to help trim the deficit." Russell advice: Larry, that $1,000 won't even buy a treadmill at the Senate Gym. Save your money, learn frugality. Think of this, by the time you're 21 that thousand bucks could be worth five hundred.

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One of the biggest blunders in US corporate history was Ford's purchase of Jaguar in 1986 for $2.6 billion. Last year Jaguar lost $394 million, but not to worry. Jaguar is coming out with a compact, sporty sedan around 1998, and that should do the trick. Said CEO Nicholas Scheele, "I wouldn't say a dawn has risen, but there is some light."

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This has to go down in the "Record Book of Losses." Showa Shell Sekiyu lost $1.05 billion in unauthorized trading in currencies. The company is a Japanese subsidiary, 50% owned by Shell.

* *

I taped Oprah's interview with Michael Jackson and watched it next day (that way I don't have to sit through the ads). The interview was watched by a whopping 93 million Americans. I thought it was very brave of Jackson to do the interview and very sad. He looked like a wan ghost, but I thought he came across as sincere, very sensitive, obviously extremely intelligent -- but above all, sad. When Liz Taylor appeared on the program, Jackson stood up the entire time she was interviewed, obviously embarrassed and acting as if he didn't dare be seated in the presence of the queen. Jackson -- an abused man-child, a huge talent with tiny self-esteem. The comparisons with Jackson as a black child singer and today as this strange almost unearthly figure were, I thought, heart-rending.

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Another Michael, Mike Tyson, made it to TV in a 90 minute documentary. What came across was his huge need for love and understanding, his loss of center when his father figure died, and his semi-insanity when he became heavyweight champion. What also came across was his fearful, almost superhuman strength. In prison on a rape conviction, he's now on appeal for a new trial.

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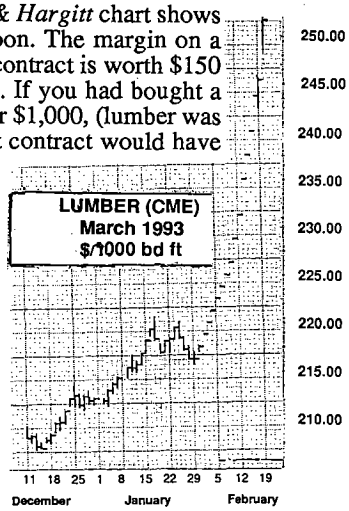
Why does anyone speculate in commodities, when most people (non-pros) lose? Answer: there's nothing like catching an exploding commodity, even if it only happens (as in lumber now) every few years or so. This *Dunn & Hargitt* chart shows March lumber heading for the moon. The margin on a lumber contract is $1,000 and the contract is worth $150 for every dollar move up or down. If you had bought a contract in December on margin for $1,000, (lumber was 240 at the time), by last week that contract would have been worth over $30,000. What happened was that the industry was caught short on lumber with home prices picking up. Furthermore, the open interest in lumber was only around 1,000 contracts. Talk about a squeeze! With the price of lumber now in the $400s, it is thought that it could add as much as $4,000 to the cost of a typical home.



GOLD: The January 23 London *Economist* presented an article entitled, "Fool's Gold." The piece starts, "When central banks lose their lust for gold, gold bugs should beware." The article went on to note that the central banks of Belgium and Holland sold large portions of their gold. Says the *Economist*, "Gold bugs conclude that most central banks will never dare to sell their gold reserves. This is just another way of admitting that stocks held by central banks are keeping the price artificially high. Only a cartel can keep it there, and history shows that cartels eventually collapse. For private investors, the conclusion is plain: sell."

When I read that I called my broker and bought more December 370 gold calls plus an extra portion of Placer Dome Gold. When the gold-hating, liberal *Economist* comes out and tells its readers to sell gold, it's the ultimate contrary opinion, and it's time to buy.

In the next issue of the *Economist* a letter was published that is worth reprinting here. *"The aggregate gold reserves of the industrial countries, less Japan, are only 33% of their total reserves, down from a norm of 80% in the 1950s. By contrast Japan, China and the other Asian Tigers have reserves of only 7% of total reserves. This apparently sensible constraint in the cases of Japan, Korea and Taiwan is the outcome of historical pressure from the US on its vassals to hold dollar reserves. With the demise of the Soviet Union, US leverage is much diminished. Also China will not hold excess currencies reserves which can be quarantined at any time by US fiat . . . You are quite right that gold will flow from the vaults of the feckless and improvident. As always, it will flow to where the wealth is being generated. For the foreseeable future -- to the East."*

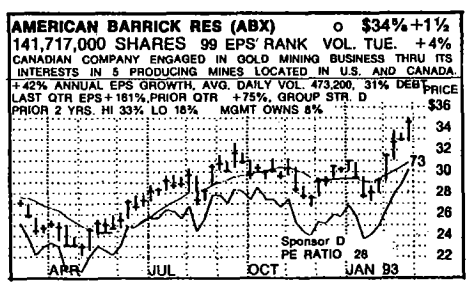
Russell comment: I thought the above was most interesting. I know that the Chinese have always been distrustful of paper money, and they will hesitate to accumulate dollars. Chinese citizens are big buyers of gold. We know Taiwan is buying gold, and we can expect the rest of Asia to stock up as well.

I've always said that what the US fears most is the dollar losing its status as a reserve currency. And, of course, gold represents real money, money that can't be inflated by government decree. As such, gold has to be the enemy of US politicians. I thought that was abundantly clear when US advisors went to Russia and obviously did not advise the Russians to back the ruble with gold. The result was that the ruble is now literally worthless.

I can't resist reprinting another letter that was sent to the Economist: *"It is ironic that at a time when people ought most to be questioning the integrity of paper money around the world, central banks have begun to sell their stocks of gold. Whether it be continentals in the US (1780s), assignats in France (1790s), D-marks in Germany (1920s), rubles in Russia (1993), a host of currencies in South America, or base metal coinage in the end of the Roman Empire, there is no point in history at which fiat currencies have not eventually become worthless."*

Russell comment: Sad but true. And with the US running deficits of well over $1 billion a day, the same will, in due time, apply to the dollar. So if you want to leave something to your grandchildren that you know will represent value, make it gold coins. A hundred years from now gold will still be money -- and the dollar will be a museum piece. Count on it.

Below is one of *Investor's Business Daily's* excellent "smart" charts. The chart is of American Barrick, a stock that I have recommended frequently. ABX has risen over 50% since April, and that with almost no action in gold (what happens if and when gold starts to rise?). The figure 73 on the chart indicates that ABX has outperformed 73% of the stocks on the NYSE. The "99 EPS" means that ABX, earnings-wise, has outperformed 99% of the stocks on the NYSE. If you want to do something in gold stocks, I recommend ABX, Placer Dome (PDG) and as a rank speculation, Royal Oak Mines on the Amex (RYO represents a group of mines including the old Giant Yellow Knife and Pamour -- I'm sure you old gold groupies from the 1970s remember those names).



LATE NOTES: The yield on the S&P 500 is down to a minuscule and dangerous 2.72%. Yet the PTI continues to climb to new highs. It's a case of a sky-high, overvalued market -- but a market swimming in liquidity and low interest rates. A market this high is extremely sensitive to any adverse news or shock (you can see it in the swooning of many individual stocks). The mystery every Republican is asking -- why is the Greenspan Fed pumping like mad for Clinton when it wouldn't do the same for Bush? (Is Greenspan secretly in love with Hillary?) . . . Seriously, as I see it, the key here is interest rates. The second key is whether Clinton can get away with his front-loaded, "tax everything that moves and make the cuts later" program . . . Note (page 1) that the "Percentage of Blue-Chips" that are undervalued has dropped to an all-time low of 7%.